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ABSTRACT

The Los Alamos schools obtain support from a combination of local, state, and Department of Energy funds mandated by the Atomic Energy Commission Community Act. Each year the Los Alamos schools prepare three budgets, and during any week the schools may work directly with all three levels of government concerning funding. In 1974 the state of New Mexico legislated an equalizing method of funding that resulted in Los Alamos receiving considerably less than before. The Los Alamos schools in response sued the state for allegedly violating the supremacy clause by cancelling the effects of the Atomic Energy Commission Community Act. The circuit court decision ruled in favor of the state. Los Alamos anticipates continued payments from the Department of Energy, and an attempt will be made to circumvent the adverse effects of the current state aid formula. Clearly, school finance problems are increasing in complexity. In addition, equalization programs should be amended to stop rewarding schools that exhibit lower quality work and poor performance. Rather, schools doing a good job should be rewarded. Finally, it is the community rather than the state or federal government that can provide a strong education plan for youth. Questions and answers concerning the topic are included.
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School Finance in a Federal City: Los Alamos as a Case Study
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Duane W. Smith

As a brief history, in 1918 the Los Alamos Boys Ranch School was begun and Dr. J. Robert Oppenheimer was a frequent visitor to the school during his boyhood days and his memories of the locale lead directly to the choice of Los Alamos as the sight for the Manhattan Project. In early 1943, the Boys Ranch School was closed while the United States Army built a scientific laboratory which created the first atomic bomb. At the close of World War II, the Atomic Energy Commission continued to operate Los Alamos Scientific Laboratory and the schools which served the personnel there.

In 1949 the local schools became an independent county school system. During the thirty some years of their existence, the Los Alamos Schools have expanded from a one-building operation to nine elementary and secondary complexes, administrative and service offices; from an enrollment of 200 to approximately 5,000 students; from nine staff members to over 300; from a restricted curriculum to a broad and flexible program which puts a premium on innovative techniques; and from a small military atmosphere to a modern cosmopolitan civilian community--to a school system which is recognized and respected throughout the United States.

In 1955 the United States Congress passed the Atomic Energy Commission Community Act. Other federal cities, most specifically Oakridge, Tennessee, and Richland, Washington, were the initial recipients of resources which were appropriated under this act. In 1955 to 1966, the Los Alamos Schools served as a direct contractor, and I emphasize the word "contractor" to the federal government and received funds as a service contractor to the scientific laboratory there. This was as a direct appropriation by the Congress.

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In 1966 the community, schools and all services thereto related were transferred from government control to local control. At that time the Los Alamos Schools entered into a contract with the Atomic Energy Commission for supplemental funding to the schools to insure that those schools would be able to provide the type of program that would allow the Los Alamos Scientific Laboratory to "recruit and retain" highly qualified scientific personnel so that they might continue their research efforts. The terms of the contract were basically the following:

1) The Los Alamos Schools would seek funds from all available sources from the state and from all available sources at a local level.

2) The Atomic Energy Commission would supplement those funds at a level that was determined to be "just and reasonable."

To determine what "just and reasonable" was, a set of 40 schools which were located in communities from across the United States that had a similar socioeconomic population, had similar educational background among its population, and demonstrated high interest in education were selected. For approximately four years of the contract agreement (the contract agreement was for a period of ten years) the funds were obtained from the state and local sources exactly in the same way as any other school district would receive them, and then through the annual study of the guideline schools, a "just and reasonable" figure was arrived at as being that which Los Alamos should have to be able to carry out its contractual obligations.

In 1970 the Atomic Energy Commission determined that the 1955 Act was not being properly adhered to because that Act implies that supplementary funds (from the federal government) should be gradually withdrawn so the communities, and in our case, the schools, would eventually be self-sustaining through the state and local sources. Thus from 1970 to this date, there has

been a constant flux in the funding picture for this school district. Each year our staff prepares a budget that extends through a two-year cycle and presents it to the federal agency. That agency is now the Department of Energy. Formerly, it was the Energy Research and Development Administration and prior to that time it was the Atomic Energy Commission. We justify this budget from a semi-programmatic point of view. We are in a program budgeting procedure in our school district, so it is not too difficult for us to transfer this to a form required by the Department of Energy. Just prior to coming here, I reviewed our last year's presentation and I must say that we get into some very unique descriptions of what the Atomic Energy Commission (way back when) determined was a program. Nevertheless, after we submit our budget and program description to the Department of Energy, we hear nothing. (Our presentation is received without comment or response.)

Immediately after the presentation to Department of Energy, we prepare a line-item budget for the State of New Mexico, and in the meantime, we are actively working with our congressional delegation to see that the funding level we need is met. (Almost without fail, our budget request to the Department of Energy is reduced.) After the State budget is prepared, the hearing is held in the school district by the state school finance officials and the budget for the next fiscal year is consummated. Thus, the Los Alamos Schools prepare three budgets each year.

First, for the local school board, outlining the budget estimate for specific programs. Second, a modified program budget highlighting accomplishments of the school district and pointing out specific needs to the Department of Energy and, third, a typical line item budget for the state school finance officials. In addition, we make and revise estimates of budgets almost

weekly during this time of year. As an example, this past week I have met individually with our five board members in sessions from anywhere to 2-3 hours, outlining the specific areas of concern related to our FY 1979 budget. Remember, all this has been preceded by lengthy program reviews with budget implications from each of the school units and major departments in our school district. On Tuesday of last week, I flew to Washington to discuss with the Department of Energy considerations for extension of the ten-year contract for funding the Los Alamos Schools with an aim towards trying to modify the existing contract so we would not have this annual flux of funding which always results in work with our Congressional delegation. On Thursday, I attended a pre-budget workshop conducted by the school finance division in New Mexico wherein specific areas of concern were outlined by that division. On Friday, we had another public review of our most current information as it relates to known and potential resources.

I point this out only to emphasize that in the period of one week, it is not at all unusual for the Los Alamos Schools to work directly with all three levels of government relating to the funding picture for the school district. I would only take just a second's time to mention that we have additional concerns for various specific federal projects under the Elementary/ Secondary Education Act or funding from Public Law 874, or other minor problems such as renting of facilities which we've had to close and the financial obligations for the upkeep of these same facilities. And I might point out all of this has budget implications for this one school district which, as I mentioned earlier, has about 5,000 students.

In 1974 the State of New Mexico legislated a new method of funding. The method selected was one that is student driven and has an equalizing

concept throughout, providing more or less funds for various levels of programs to be taught and providing more or less funds based on a school district's ability to support itself. This funding concept resulted in Los Alamos receiving approximately $550,000 less than it would have received under normal funding procedures during the first year of its inception and the reduction has been considerably more each year thereafter.

In reviewing the Atomic Energy Commission Community Act and the contractual arrangements we had with the AEC, we felt the new funding scheme by the State of New Mexico was discriminatory in its effect and violated the Supremacy Clause of the United States Constitution, in that it prohibited the federal government from meeting the intent of one of its laws. As a result, we brought suit against the State of New Mexico in a federal district court. That court decided in favor of the Los Alamos Schools and the State appealed it to the Tenth Circuit Court where a three-judge panel ruled in favor of the State by a vote of two to one. Feeling the question had not been satisfactorily resolved, and after having four judges hear the case, two voting in the affirmative and two voting in the negative, we felt it was reasonable to appeal the case to the United States Supreme Court. The Supreme Court refused to hear the case and thus the decision of the Tenth Circuit Court level stood. The Chief of Public School Finance in the State of New Mexico in reviewing the case for the governor and advising him of the fact that the case had finally been settled, stated that in his judgment "the case for equalization of revenue for public schools had been significantly advanced by the Supreme Court's action and that the case would serve as another landmark as the sovereign state's search for viable solutions to the problems of equalization of opportunity."

So I have briefly outlined to you the problems faced by the Los Alamos Schools over the last few years as it relates to local, state and federal agencies. Our job has been increased tenfold with the uncertainty of funding from the federal government, the change of philosophy of funding at the state level, and the general attitude of local agencies towards public education.

As far as things for the future, we are projecting that a task force will be formed at the Department of Energy level and Office of Management and Budget. It's been estimated that this will be a six-member committee that will investigate the funding picture for Los Alamos, Oakridge, Tennessee, and Richland, Washington. With a timeline of December 1979 as their goal, this task force will determine alternatives for future assistance for these three communities and their school districts. We anticipate continuing payments and it will be our effort to circumvent in some way the adverse effects that the current formula for funding schools in New Mexico has placed on our particular school district.

I might just go on to say that it seems to me that financing of education is an enigma. I find that the bureaucrats at the state level are very often at odds with the bureaucrats at the federal level and vice versa. The various agencies in and out of state level are striving for power and control over the educational community. Many times local districts become a pawn between these agencies. The Superintendent and the Board of Education find themselves in a continual dilemma trying to deal with the problem of coordinating programs and resources between two, three, four, or more agencies--none of which may be supportive or knowledgable of the other. The school district finds itself vulnerable to the whims of these bureaucrats. As an example, because of a

conflict between the federal government and the State of New Mexico relating to the funding scheme in our state and the timing for funding of kindergartens in New Mexico which, by the way, were phased in over a three or four year period starting about 1974, the federal government has determined it might be withholding 874 funds from the State in the amount equal to the 874 funds that were expended for kindergarten students during that period of time. This may affect a one-year period and possibly three. Our school district is contesting this decision, but, if we're unsuccessful, we stand to lose $50,000 or possibly up to $150,000 this fiscal year. In our case, that could amount to 1/2 percent or up to 1½ percent of our total budget.

Graphs 1 and 2 give you an example of the change in the educational funding picture over the ten-year period from 1968 to 1978. (Put in overlays here.) The bottom figure is the total net expenditure--$3,543,000 for FY 1968. That was not the total budget estimate. At that time, we were receiving about 49 percent of our funds from the state, 45 percent from AEC, 4 percent local, and 2 percent miscellaneous. Now, eleven years later, we are receiving 46 percent-state; 34 percent-Department of Energy; Public Law 874 has come in now totalling 7%; local has been increased significantly to 11%, and miscellaneous still roughly 2 percent. Our total net budget expenditure is estimated to be $8,063,000 for FY 1978.

I believe you will agree that the funding picture for the Los Alamos School District is significantly more complicated than it was ten years ago and, from our point of view, we find it is necessary for us to work in every conceivable way to save money through energy conservation, use of aides, cutting out low enrollment classes, closing schools, and renting facilities. If you

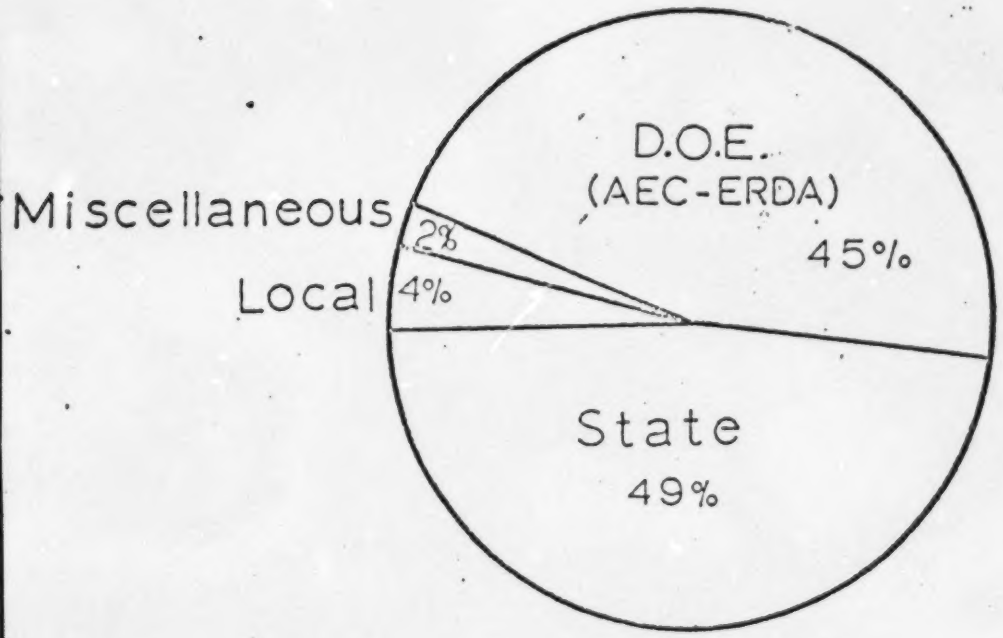
follow, closely, the cost-of-living increase or the cost-price increases over the eleven-year period (1968 through 1978) and couple that with the additional services that have been imposed on public education in that same ten-year period, such as health education, food services, busing, federal regulations, special education, etc., you will find that the people of Los Alamos are getting much more for their money than they were eleven years ago. I'm not here to debate that today, but I point out it is not a difference of $4,520,000 in eleven years that is increased because the dollar today buys much less than in 1968.

The people with me today are going to be talking to you about some ways that our schools are looking at in conserving funds and the efficiency of operation, both fiscally and instructionally. I've always felt I had a reasonable background in school finance and certainly a practical sense of business in trying to provide programmatic justifications for expenditures. I can tell you what I learned at the graduate level does not relate anywhere remotely to the job I have today. I would encourage this group or those of you that have responsibilities in dealing with graduate students to look at the whole area of educational administration and planning and specifically what you do in teaching about finance problems, because they are so much more complex than anything people ever dreamed they would be, and they are going to get more so.

Let me conclude by saying I'm fearful of the trend I see in educational financing. It's centered around the trend in equalization and that does cause me some concern, but not from the point of view that schools should not be funded equally--I believe they should. The concern is that we must provide a level of opportunity that will allow school districts to train youngsters

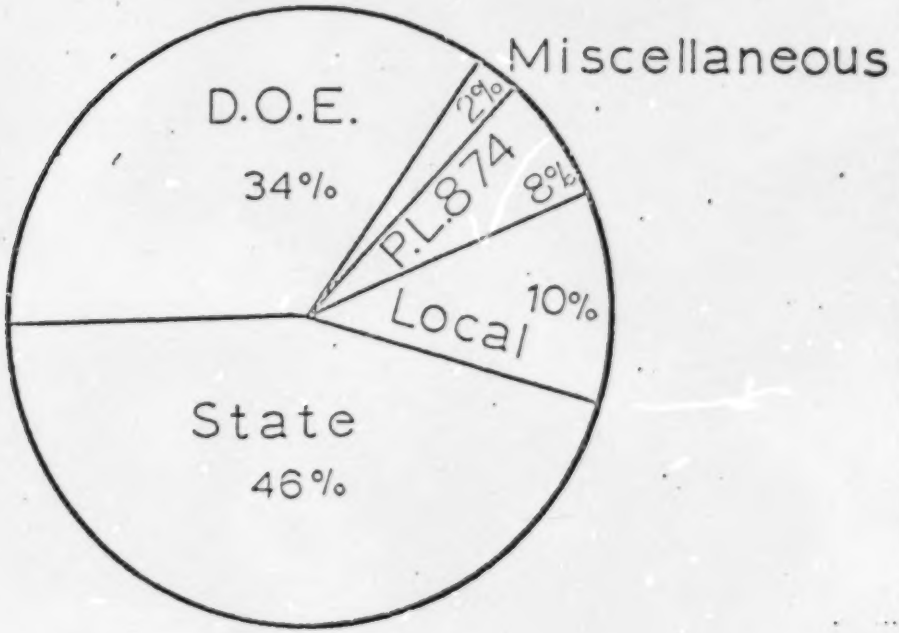
to be productive members of society. In so doing, our charge should be to reward those schools and school districts that are getting the job done. Yes, reward for high production and for fine work. Set standards that are reasonable and can be reached and be prepared to pay for the work when standards are met. I am concerned about some of the current concepts--reward for lower quality work and less than high quality performances. Some of the federal programs in public education are typical examples. Somehow, a funding system for education which will recognize outstanding performance needs to be developed or we will continue to be accused of turning out a poor product--and we are being accused of that. There is a great deal of well-researched data which outlines what a quality education should be, starting with Dewey and progressing to Piaget, and the local community can (and I assure you Los Alamos does)determine what they want from their schools. Regulatory agencies at the State Department of Education and similar organizations should be required to move into local school districts and determine specific needs to bring a school district to the level desired by the community when it has been determined the school district is not meeting a certain quality. And finally, I believe that primarily through local effort, the school district will provide acceptable educational opportunity. I don't think Washington can do it; they've proved that. The state capitol can't do it; they're trying and they're failing. It's only the communities that can do it. If communities want a strong education plan for the youths, they'll have it.

FY 1968
Budget Resources
Los Alamos Schools



Budget Total FY 1968
3,543,000

FY 1978
Budget Resources
Los Alamos Schools



Budget Total FY 1978
8,063,000

QUESTIONS AND ANSWERS

QUESTION: How are these Department of Energy monies handled? Are they treated in the formula just as if this were local money?

ANSWER: No, the school district of Los Alamos was treated entirely differently when they set up the 1974 funding formula. The effect is that the State of New Mexico reduces its payment to Los Alamos in the amount of approximately 30 percent of what it would provide otherwise if the district were treated as the other school districts are. What happened was, the State set a base for Los Alamos and that amounted to be a reduction in the amount of about 25 percent of what other New Mexico districts receive and then they said the change each year in state funding will be equivalent to that percentagewise which any other school district in the state would receive. So, if the State increase is 10%, Los Alamos resources from the State are 10% greater. The problem is that Los Alamos starts at a lower number and so the gap between school X and Los Alamos becomes greater each year. It was just an arbitrary thing; they set a base and the contention was the school district would never receive less money in the succeeding year than they had received presently. They just "held Los Alamos harmless" and it amounted to approximately $550,000 less funds which represented about 7% of our total budget in that year.

QUESTION: In the final analysis, then, the per pupil expenditures that you have will be basically equivalent to all the rest of the school districts in the state?

ANSWER: No, our total per pupil cost will be considerably greater than the rest of the schools in the state. We will expend roughly $1,500 to $1,600 per student this year--the State of New Mexico will spend $1,300.

QUESTION: Well, this is not ever envisioned as being just another local poverty-based asset?

ANSWER: No.

QUESTION: A little on the history of this. Originally when this contract was drawn, you received funds comparable to 40 comparable districts throughout the United States--is that correct?

ANSWER: Right.

QUESTION: And that would fluctuate, of course, if you picked the districts? It was a mutually agreed upon list. With the foundation program which went into effect in New Mexico four years ago, what has happened, they have cut you back to bring you more in line with the rest of the state--is that correct?

ANSWER: Yes.

QUESTION: Are the funds that you receive from the Department of Energy now the amount which the State actually takes away from you, I gather?

ANSWER: Well, they don't really take it away; they just don't give you as much. That's based on the formula that allows the State to take the proportion of total expenditures to local resource and this apparently is considered local resource. Really they consider it a federal resource (a noncategorical federal resource) but they handle it the same as if it were local.

Are they not taking more than they legally can or is that--that's been settled; they are not. I'm convinced there will be come legislative action to settle the question from that point of view as opposed to the courts. (It is my impression.) The Congress is not satisfied with the results of the court action.

QUESTION: Now, when the Supreme Court refused to hear the case and they upheld the State, what it actually meant was that you lost about $100 per pupil, I gather?

ANSWER: We're up right now with the increase in funding in New Mexico; they have made a great effort in that state in the last few years--gone up fantastically. However, even though the State has increased, they contribute about a million dollars a year, less than they would if they placed Los Alamos under the formula. So, in a period of 4 years, it's jumped from roughly $550,000 per year to a million per year. While the suit was in the courts, the money was put in escrow and I believe in a period of 4 years, about 1.7 or 1.8 million dollars was held by the time the suit was finally decided.

QUESTION: I'm also interested in the suit in litigation on the kindergarten which you alluded to. Is that an 874 reduction?

ANSWER: Yes.

QUESTION: Is this because the State of New Mexico does not fund kindergartens in their foundation program?

ANSWER: They didn't and they phased it in over a period of years. In our particular case, we had kindergartens during this time period and the State counted them. Now under the State funding concept, the State takes credit for 95% of all 874 funds. So, in every case except one, and that's our case, they take credit for the 874 but they also guarantee to the school district

that if it's 874 funds are reduced in any manner, they will receive 95% of entitlement (except Los Alamos). So, we were more or less a victim of this conflict between the state and the federal government and it looks like they are going to withhold that money this year.

QUESTION: It isn't an argument then actually with the federal government through the 874, then, it's between Los Alamos and the State of New Mexico?

ANSWER: It really amounts to that, that's right.